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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to Huron Consulting Group’s webcast to discuss financial results for the fourth quarter and full year 2021. (Operator Instructions) As a reminder, this conference call is being recorded.

Before we begin, I would like to point all of you to the disclosure at the end of the company’s news release for information about any forward-looking statements that may be made or discussed on this call. The news release is posted on Huron’s website. Please review that information, along with the filings with the SEC for a disclosure of factors that may impact subjects discussed in this afternoon’s webcast. The company will be discussing 1 or more non-GAAP financial measures. Please look at the earnings release and on Huron’s website for all of the disclosures required by the SEC, including reconciliation to the most comparable GAAP numbers.

And now I would like to turn the call over to Jim Roth, Chief Executive Officer of Huron Consulting Group. Mr. Roth, please go ahead.

James H. Roth  
_Huron Consulting Group Inc. - CEO & Director_

Good afternoon, and welcome to Huron Consulting Group’s Fourth Quarter and Full Year 2021 Earnings Call. With me today are Mark Hussey, our President and Chief Operating Officer; and John Kelly, our Chief Financial Officer.

Before I begin, I would like to highlight that in our earnings release issued this afternoon we introduced our new operating model and announced corresponding changes to our segment reporting structure. We placed supplemental materials on the Investor Relations section of the Huron website to provide additional detail on our new reporting structure and recast financial information, including unaudited summary financial information. These supplemental materials should be reviewed in conjunction with our earnings call and not on a stand-alone basis. Please note these segment reporting changes apply to the reporting periods beginning January 1, 2022, and our fourth quarter results are consistent with prior reporting practices.

Before I provide additional insight into our fourth quarter and full year performance, I want to briefly discuss our new operating model, which we believe will strengthen our go-to-market strategy and better position Huron to integrate our deep industry expertise with our strong digital strategy and financial advisory capabilities.

Today, we are introducing a business realignment and related segment reporting changes that we believe will strengthen our go-to-market strategy and competitive advantage to accelerate growth, drive efficiencies across our business, and enhance transparency for the investment community into the core drivers of our business.
This is the first material change to our operating model in nearly a decade. Our markets have changed, our clients and business needs have changed, and we are taking this important step to expand and more deeply integrate our industry focus with our digital strategy and financial advisory capabilities.

For Huron, our growth strategy and our business realignment are the means through which we will achieve 2 critical outcomes: Improved integration of our industry and capability expertise and more deeply embedding our digital offerings into our client engagements. Mark will share more insight about our operating model in a few minutes, but I will now discuss our fourth quarter and full year 2021 performance, along with our expectations for 2022.

In the fourth quarter and throughout the year, we continued delivering on our commitment to sustainable revenue growth and improved profitability. Led by organic growth across all 3 operating segments, annual revenues grew 7% and adjusted EBITDA margins improved 50 basis points over 2020. These results demonstrate that our growth strategy is delivering a solid return on our organic and inorganic investments. We managed successfully through the worst of the pandemic and have positioned the company for continued growth and profitability.

On a full year basis, Healthcare segment revenues increased to 7% over 2021. In the fourth quarter of 2021, the Healthcare segment grew 22% over the prior year quarter, reflective of the strength of demand for our performance improvement and Managed Services offerings. Over the last 3 quarters of the year, as the impact of the pandemic on our hospital and health system clients continued to wane, we experienced growing demand for Healthcare offerings despite the persistence of the Delta and Omicron variants.

During the past 2 years, the need to reduce costs and improve quality has been one of the primary challenges for our Healthcare clients. Those challenges have led to strong demand for our clinical and operational performance improvement offerings. More recently, new challenges have risen to the top of the agenda for our Healthcare client base, broadening demand for our historical services and creating opportunities for us to develop new offerings to address the changing health care market.

For example, labor issues, including employee burnout among clinicians, are having a material impact on hospitals and health systems. Attracting and retaining employees and an increasing reliance on contract resources has added new pressure on Healthcare margins. This issue, along with inefficiencies related to COVID safety protocols, are likely to remain for the foreseeable future and are causing many hospitals to reevaluate how best to strengthen their financial position amidst these expense pressures.

While health care providers remain under immense pressure to attract and retain talent in this highly competitive labor market, many are also focused on reevaluating their strategies to position their organizations for long-term success. Personalizing patient care and evolving the care delivery model into a more geographically distributed environment is at the forefront of many health system strategies, especially as pharmacies, private equity and other nontraditional care providers seek to achieve greater market share.

Hospital systems are focused -- are also focused on advancing their digital platform to meet the needs of their patients, clinicians, employees and communities, including moving beyond the basics of telemedicine, which has become a staple of care delivery during the pandemic.

Collectively, this environment has created significant demand for Huron across all of our businesses that work in the health care market. With our comprehensive offerings spanning strategy, operations, digital and people transformation, Huron is uniquely positioned to help our Healthcare clients develop a strong, strategic, operational and digital foundation from which to achieve their mission. We believe that the combination of our traditional offerings, new innovative digital and analytics solutions, including the acquisition of Perception Health and the broader health care market tailwinds will continue to create growth opportunities for our business.

Turning to the Business Advisory segment. On a full year basis, segment revenues grew 9% year-over-year. In the fourth quarter of 2021, Business Advisory segment revenues grew 18% over the prior year quarter, primarily attributable to strong demand for our financial advisory, strategy and digital offerings.

Our digital and analytics offerings have been a solid driver of growth for Huron during the past 2 years. The criticality of having more robust digital capabilities continues to drive demand for our services across our core industries. In recent years, we have invested in expanding our relationships
and capabilities across the largest cloud providers, including, but not limited to, Oracle, Salesforce and Workday. And we have significantly expanded our analytics offerings to provide deeper insights to our clients, seeking ways to more effectively use and apply a wide array of data to inform better, faster decision-making.

Our successes have been clear with continued growth in the financial services and energy and utilities industries as well as across the health care and education industries. As Mark will discuss shortly, our new operating model will strengthen the integration of our digital capabilities into our core industries, providing more seamless delivery of our collective offerings and providing Huron with greater growth opportunities.

Within the Business Advisory segment, our strategy and M&A advisory offerings also performed well, driven by organizations seeking to evolve their business to be more -- to more effectively compete in a post-pandemic environment.

For full year 2021, the Business Advisory segment generated approximately 25% of its total revenues in the health care and education industries. We continue to believe we are most successful against our competition when we bring our deep industry expertise together with our broad set of capabilities that are most reflective of our clients’ needs. That strategy is at the heart of our new integrated operating model.

Turning now to the Education segment. Annual revenues in the segment grew 6% as compared to 2020. In the fourth quarter of 2021, Education segment revenues increased 41% over the prior year quarter driven by the strength in demand for our services across the segment following the impact of the pandemic that hit the education industry very hard in the second half of 2020 and early 2021.

The Education business steadily grew quarter-over-quarter throughout the year. We have seen a resurgence in demand for all of our offerings in this segment, and the level of demand outperformed our expectations. Higher education institutions are turning to Huron as their trusted adviser given our strong reputation and market presence and deep industry expertise as they face a wide array of strategic, operational and financial challenges. The issues and challenges in this industry are growing in complexity, and we are well positioned to help our clients navigate what will surely be significant changes in the coming years.

Let me turn to our expectations and guidance for 2022. Our revenue guidance for the year is $970 million to $1.03 billion, with a midpoint of $1 billion. We also expect adjusted EBITDA in a range of 11.3% to 12.3% of revenues and adjusted diluted earnings per share of $2.85 to $3.35. Company-wide, we are guiding to 10% revenue growth at the midpoint for 2022.

In terms of margins, at the midpoint of our 2022 guidance, we expect a 100 basis point improvement over 2021. We remain focused on expanding margins while investing in areas in our business with the greatest growth opportunities. We continue to believe we have built a strong foundation from which we can sustainably grow revenues while improving margins, consistent with our long-term financial objectives.

Finally, let me share my deepest appreciation for the entire Huron team. Our 2021 financial results are only possible because of the commitment of our people to serving our clients, our company and one another. The passion and dedication they have for the work we do is unmatched, and I'm incredibly proud of the way we all work together to emerge from 2 tough years in such great shape.

We believe we are off to a strong start in 2022, and we are excited about our prospects for achieving our revenue and profitability goals for the year. Our markets are vibrant. We are strategically and operationally well positioned and our new operating model creates an even stronger foundation for success in the future.

Now let me turn it over to Mark to provide more color on our new operating model. Mark?

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C. Mark Hussey - Huron Consulting Group Inc. - President & COO

Thanks, Jim. As our press release indicates, effective January 1, 2022, we have taken the next step in our strategy, most notably, for expanding on our strengths in our core industries, while more closely integrating our significant digital capabilities into a unified company-wide platform. This new integrated operating model is matrixed on industry expertise and capability and built on a rapidly expanding global platform.
By unifying our company-wide resources focused on our 2 largest industries and aligning our capabilities across the enterprise, we expect to strengthen our go-to-market strategy, accelerate revenue growth, drive efficiencies that support margin expansion, and in turn, unlock meaningful shareholder value. Specifically, we’re aligning our industry offerings that historically resided across multiple businesses into a unified platform from which to more seamlessly go to market in health care, education and commercial sectors.

With the strengthened integration of our industry expertise, we believe we'll drive accelerated revenue growth across all of our offerings within those industries. We're harnessing the power of our deep industry expertise, which has been foundational to our historical success and will continue to be critical to our growth strategy.

Our core industries of healthcare, education, financial services and energy and utilities are facing significant change, which creates meaningful growth opportunities for Huron. The changes to our operating model position us to better serve our clients and to capitalize on the significant market opportunities that lie ahead.

In terms of our capabilities, our primary focus is bringing together the full breadth of our digital technology and analytics capabilities across the company into a common platform called digital. Our focus with digital is to accelerate growth and innovation and to drive efficiencies as we operate the team on a unified global basis. Our collective organic and inorganic investments in technology assets over the past 9 years have resulted in our digital, technology and analytics offerings representing nearly 40% of total company revenue in 2021.

Our operations in India have also grown substantially over the past 7 years. And our India-based employees now represent approximately 20% of our total employee population. In our new model, we will leverage these investments to establish a much more scalable platform across technology services and products that will further promote growth, innovation and margin expansion.

The operating model also places greater emphasis on our strategy and financial advisory capabilities. We're closely integrating these offerings with our focus on industry expertise, which we believe together differentiates our company in the market.

We're excited about this realignment because we believe it benefits all stakeholders. First, our clients. We'll maintain the depth of our substantial industry expertise, while expanding and strengthening our presence in our core markets. And we'll build new competencies, including in digital technology and analytics to accelerate innovation and improve client outcomes.

Second, our employees. Our new operating model will strengthen the way we work together to serve our clients, how we innovate, collaborate and support each other as we create new career advancement opportunities that will help us attract and retain top talent.

And third, the investment community. We believe that this realignment will support the acceleration of organic revenue growth and the expansion of our operating margins. Our new reporting structure, which John will talk about in a moment, will also provide greater insight to investors on our comprehensive revenue and operating margin in our core industries as well as our consolidated revenue growth into our digital capabilities. We'll be sharing more details on our company’s strategy and business realignment at our upcoming Investor Day at the end of March.

Our management team and Board are confident that this is the right time to make these changes. Our organization has grown to a point where we need to take our go-to-market strategy in collaboration to the next level to capitalize on the significant market opportunities ahead of us. We believe the foundation we're putting in place will enable sustainable revenue growth and enhanced margin expansion, while creating greater visibility into our business for our investors.

And now let me turn it to John for a more detailed discussion of our Q4 financial results and 2022 guidance. John?
uses these non-GAAP measures and why management believes they provide useful information to investors regarding our financial condition and operating results. Also, unless otherwise stated, my comments today are all on a continuing operations basis.

Also, during the fourth quarter, we completed the divestiture of our Life Sciences business, which closed at the beginning of November, and is included in our fourth quarter results as part of the Business Advisory segment through the date of divestiture. We closed our acquisition of Whiteboard Higher Education on December 1. Whiteboard is included in our fourth quarter financial results within the Education segment from the date of acquisition.

Our recent acquisition of Perception Health closed on December 31, and as such, is not included in our fourth quarter results. The acquisitions of Whiteboard and Perception Health strengthen our deep industry expertise in the education and health care sectors, respectively, while broadening our capabilities in student search, data and analytics as we expand our offerings to serve our core end markets.

Now let me walk you through some of the key financial results for the quarter. Revenues for the fourth quarter of 2021 were a record of $248.3 million, up 25.2% from $198.3 million in the same quarter of 2020. The increase in revenues in the quarter was driven by strong growth across all 3 operating segments.

For full year 2021, revenue was $905.6 million, up 7.3% from $844.1 million in 2020. Similar to the quarter results, these full year results were our highest revenue to date and reflect growth in all 3 segments and increased demand for our services across industries following the initial impact of the pandemic.

Net income was $31.1 million or $1.45 per diluted share in the fourth quarter of 2021, compared to a net loss of $6.1 million or $0.28 per diluted share in the fourth quarter of 2020. The fourth quarter of 2021 included a $23.7 million gain net of tax related to the sale of our Life Sciences business. The fourth quarter of 2020 included the impact of restructuring and lease impairment charges of $13.9 million net of tax, taken to reduce our operating costs to address the impact of the pandemic on our business.

For full year 2021, net income was $63 million or $2.89 per diluted share. This compares to a net loss of $23.7 million or $1.08 per diluted share in 2020. 2020 included the pretax goodwill impairment charge of $59.8 million taken in the first quarter.

Our effective income tax rate in the fourth quarter of 2021 was 24.5%. On a full year basis, our effective income tax rate for 2021 was 21.3%, which is more favorable than the statutory rate, inclusive of state income taxes, primarily due to tax benefits related to the CARES Act, the positive impact of certain federal tax credits and a discrete tax benefit recognized during the second quarter of 2021 related to electing the global intangible low taxed income, or GILTI, high-tax exclusion retroactively for the 2018 tax year.

Adjusted EBITDA was $29.3 million in Q4 2021 or 11.8% of revenues compared to $17.1 million in Q4 2020 or 8.6% of revenues. For full year 2021, adjusted EBITDA as a percentage of revenues increased to 10.8% compared to 10.3% in 2020. Adjusted non-GAAP net income was $17.2 million or $0.80 per diluted share in the fourth quarter of 2021, compared to $10.2 million or $0.45 per diluted share in the fourth quarter of 2020. For the full year, 2021 adjusted non-GAAP net income was $56.9 million or $2.61 per share compared with $47.9 million or $2.15 per share in 2020.

Now I'll make a few comments about the performance of each of our operating segments. The Healthcare segment generated 42% of total company revenues during the fourth quarter of 2021 and posted revenues of $103.7 million, up 21.8% from the fourth quarter of 2020. The increase in revenue reflects the strength of demand for our performance improvement-related offerings following the initial impact of the COVID-19 pandemic on our business.

On a full year basis, Healthcare revenue increased 6.8%. Performance-based fees for the full year 2021 were $73.4 million compared to $69.3 million in 2020. Operating income margin for Healthcare was 24.7% for Q4 2021, compared to 28.3% for the same quarter in 2020. The quarter-over-quarter decline in margin was primarily due to an increase in performance bonus expense for our revenue-generating professionals as a percentage of revenues, partially offset by the decrease in restructuring charges taken in the fourth quarter of 2020. On a full year basis, operating margin was 27.5% compared to 26.9% in 2020.
The Business Advisory segment generated 31% of total company revenues during the fourth quarter of 2021 and posted revenues of $77.9 million, up $12 million or 18.2% from the fourth quarter of 2020. Revenues for the fourth quarter of 2021 include the inorganic contributions of $2.4 million from our acquisitions of ForceIQ and Unico Solution. The quarter-over-quarter increase in revenue was primarily attributable to strong demand for our financial advisory, strategy and digital offerings.

On a full year basis, the Business Advisory segment revenues were $291.7 million and grew 9.1% year-over-year, driven by strong demand for our digital and strategy offerings. The operating income margin for the Business Advisory segment was 14.1% for Q4 2021, compared to 16.3% for the same quarter in 2020. The quarter-over-quarter decline in margin was primarily due to restructuring charges related to the divestiture of our Life Sciences business during the quarter. The Life Sciences restructuring charges had an approximate 800 basis point impact on Business Advisory segment margin during the quarter.

On a full year basis, operating margin was 16.5% compared to 18% in 2020. The fourth quarter of Life Sciences restructuring charges had a 225 basis point impact on full year Business Advisory segment margins.

The Education segment generated 27% of total company revenues during the fourth quarter of 2021 and posted record revenues of $66.7 million, up $19.4 million or 41% from the fourth quarter of 2020, which was our low point for this practice during the pandemic. Revenues for the fourth quarter of 2021 included $600,000 from our acquisition of Whiteboard. This increase in revenue reflects the strength of demand for our services across the segment, including our research, strategy and operations, student and digital offerings.

On a full year basis, Education segment revenues grew 5.9% year-over-year, driven by strong demand for our research, strategy and operations and student offerings. The operating income margin for Education was 23.3% for Q4 2021, compared to 12.1% for the same quarter in 2020. The quarter-over-quarter increase in margin was primarily due to our revenue growth as well as a decrease in restructuring charges, partially offset by an increase in contractor expense as a percentage of revenues. On a full year basis, operating margin was 22.3% compared to 21.3% in 2020.

Other corporate expenses not allocated at the segment level were $36.8 million in Q4 2021, compared with $47.4 million in Q4 2020. The fourth quarter of 2021 included $1.6 million of expense related to the increase in the liability of our deferred compensation plan, which is fully offset by the corresponding gain recorded as other income and the value of the assets used to fund this plan as well as $1.8 million in restructuring charges. The fourth quarter of 2020 included $3.1 million of expense related to the deferred compensation plan and $14.5 million of restructuring expense.

Adjusting for the impact of the deferred compensation plan and restructuring charges, year-over-year, corporate expenses increased by $3.6 million for the fourth quarter of 2021. This increase reflects increases in performance bonus expense and salaries and related expenses for our support personnel as well as an increase in professional fees related to M&A activity during the quarter.

On a full year basis, corporate expenses not allocated at the segment level, increased 5.5% over 2020 when adjusting for the impact of the deferred compensation plan and restructuring charges. This increase reflects increases in salaries and related expenses, performance bonus expense, retention bonuses for our support personnel and increases in professional fees related to M&A activity in software and data hosting expenses, all partially offset by decreases in share-based compensation expense for our support personnel and practice administration and meetings expenses.

Now turning to the balance sheet and cash flows. DSO came in at 69 days for the fourth quarter of 2021, compared to 76 days for the third quarter of 2021 and 52 days for the fourth quarter of 2020. The increase in cash flow and decrease in DSO during the fourth quarter when compared to the third quarter reflects the collection of working capital on certain larger health care and education projects during the quarter in accordance with contractual payment schedules.

The increase in DSO compared to the fourth quarter of 2020 reflects several advanced payments by clients and relatively fewer large contracts with extended payment terms in the fourth quarter of last year. We expect DSO to normalize to between 60 and 65 days in 2022.

Total debt included the $230 million in senior bank debt and a $3 million promissory note for total debt of $233 million. We finished the year with cash of $21 million for net debt of $212 million. This was a $40 million decrease compared to Q3 2021.
Our leverage ratio as defined in our senior bank agreement was approximately 1.7x adjusted EBITDA as of December 31, 2021, compared to 1.9x adjusted EBITDA as of December 31, 2020. We achieved this leverage ratio of 1.7x while deploying $64.6 million to repurchase shares, approximately 1.3 million shares, and $45 million in strategic tuck-in acquisitions during 2021. From November of 2020, when our Board of Directors authorized $100 million for share repurchases through the date of this call, we have repurchased approximately 1.9 million shares for a total of $93 million.

Cash flow from operations for 2021 was $18 million, and we used $16 million of our cash to invest in capital expenditures, resulting in free cash flow of $2 million. Adjusting for the impact of our Life Sciences divestiture by excluding transaction-related employee and third-party costs as well as tax payments and net working capital adjustments, our free cash flow for the year was approximately $21 million. This free cash flow yield is lower than our historical amounts reflecting the record low DSO as of December 31, 2020 and the pull forward of certain cash receipts into the fourth quarter of 2020.

The repayment in 2021 of $12 million of 2020 FICA deferrals under the CARES Act and a DSO higher than our target of 60 days as of December 31, 2021, due to the impact of certain larger health care and education projects with extended contractual payment terms. We expect our free cash flow yield to normalize to historical levels in 2022.

Before I turn to our guidance for the year, let me add some color to the reporting changes that align with our new operating model Jim and Mark introduced this afternoon. For the reporting period beginning January 1, 2022, we will change our reportable segments to Healthcare, Education and Commercial, aligning the operating segments to be inclusive of all revenue and costs associated with each industry. This new reporting structure will result in some revenue and costs, historically reported in the Business Advisory segment, to now be reported in the Healthcare and Education Industry segments for engagements delivered in those industries. In addition, some revenues and costs historically reported in the Education segment will now be reported in the Healthcare Industry segment.

We will also provide revenue reporting across our 2 principal capabilities: first, Consulting and Managed Services; and second, Digital. These changes will create greater transparency into the core drivers of the business across the company.

As Jim mentioned, we have placed supplemental materials on the Investor Relations section of the Huron website to provide additional detail on our recap financial information, including unaudited summary financial information and other data according to our new reporting segments.

Finally, let me turn to our expectations and guidance for 2022. For the full year 2022, we anticipate revenues before reimbursable expenses in a range of $970 million to $1.03 billion with a midpoint of $1 billion. Adjusted EBITDA in a range of 11.3% to 12.3% of revenues. And adjusted non-GAAP EPS in the range of $2.85 to $3.35. We expect cash flows from operations to be in the range of $90 million to $110 million.

Capital expenditures are expected to be approximately $20 million to $25 million, and free cash flows are expected to be in the range of $70 million to $90 million net of cash taxes and interest excluding noncash stock compensation. Weighted average diluted share count for 2022 is expected to be 21.5 million.

Finally, with respect to taxes, you should assume an effective tax rate in the range of 28% to 30%, which comprises the federal tax rate of 21%, a blended state tax rate of 5% to 6% and incremental tax expense related to certain nondeductible expense items.

Let me add some color to our guidance starting with revenue. The midpoint of the revenue range reflects 10% of revenue growth over 2021 revenue of $906 million. The midpoint of guidance also assumes that the first quarter of 2022 revenues will increase at a mid-teens percentage level over the first quarter of 2021 with sequential growth thereafter as the year progresses.

With regard to our new Healthcare Industry segment, which we’ll begin reporting in 2022, we expect high single-digit revenue growth for full year 2022, and we expect operating margins will be in the range of approximately 25% to 27%, inclusive of digital offerings that will now be reported within the segment. This compares to 26.6% for full year 2021 on a recast basis.
In the new Education Industry segment, we expect mid- to high-teen percentage revenue growth for the full year 2022, and we expect operating margins will be in a range of approximately 23% to 25%, inclusive of digital offerings that will now be reported within the segment. This compares to 21.6% for full year 2021 on a recast basis.

In the new Commercial segment, we expect to see mid- to high single-digit percentage of revenue growth for 2022. We expect our operating margins in this segment to be in the range of 19% to 21%. This compares to 15.7% for full year 2021 on a recast basis.

We expect unallocated corporate SG&A to increase on a mid- to upper single-digit percentage basis for full year 2022, compared to 2021 as we incur some incremental costs to support revenue growth as well as an anticipated return of some travel and meeting expenses.

Turning to the total company. Huron’s adjusted EBITDA margin is expected to be in the range of 11.3% to 12.3% of revenues, an increase of 100 basis points at the midpoint of guidance compared to 2021. Also, in the first quarter, consistent with prior years, we note the following items as it relates to expenses: The reset of wage basis for FICA and our 401(k) match, our annual merit and promotion wage increases go into effect on January 1 and an increase in stock compensation expense for restricted stock awards that will be granted in March to retirement-eligible employees.

Based on these factors, we anticipate approximately 10% to 15% of our full year adjusted EBITDA and full year adjusted EPS to be generated during the first quarter.

As a closing reminder, with respect to 2021 adjusted EBITDA, adjusted net income and adjusted EPS, there are several items that you will need to consider when reconciling these non-GAAP measures to comparable GAAP measures. The reconciliation schedules that we included in our press release will help walk you through these reconciliations.

Thanks, everyone. I would now like to turn the call back over to Jim before we open the call to questions. Jim?
**Andrew Owen Nicholas** - William Blair & Company L.L.C., Research Division - Analyst

A lot of great detail here in the prepared remarks, so I appreciate that. I wanted to ask a bit more about the new operating model, specifically kind of what it takes from an execution standpoint. I understand all the benefits and you walked through a lot of that in detail. But what are the major operational lifts that are included in making this change? Where -- are there different manager structures, different kind of leadership roles for individuals? If you could spend some time on that and maybe what you consider to be the major challenges in executing on this realignment, that would be helpful.

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**James H. Roth** - Huron Consulting Group Inc. - CEO & Director

Andrew, this is Jim. I'll start and maybe I'll have Mark and John chime in a little bit. This is -- for us, it is a big change in the sense that, first of all, we're introducing a matrix structure so that we really wanted to get all of our collective capabilities, digital, strategy, financial advisory working in unison with our industry leadership.

So as before, historically, they've been more segmented. And they've certainly worked together. We've talked about collaboration for a while, but we didn't have the incentive models in place. We didn't have the true collaboration that we felt was needed to really accelerate the growth and be much more efficient about the way we brought those capabilities to market.

So the biggest change for us is really kind of a realignment where there is -- for everyone in the company, they essentially have 2 types of focus, you have an industry alignment, but then you're also going to be part of a capability as -- most everybody in the practice in the company is going to have kind of a dual reporting relationship. And I think that they're very focused on making sure that we bring to market those capabilities together as opposed to, I think, the way we did it historically, which was a little bit more separate.

So we do have -- the Head of our Education Industry is the same person that ran Education before, except it's now a broader education view. The Head of our Healthcare business is also the same person that ran the Healthcare practice before, but now Healthcare has broadened into a lot of other areas where we are providing health care services before, but are now doing it kind of together.

So there is a substantial change for us, but we've been kind of easing toward this for a while, and then we really decided probably mid last year, the time was now to really realign the organization to best take advantage of these things.

So we've been talking about this collectively throughout the practice and have been very heavily involved with all of our people in the company working this through during the last 4, 5 months of 2021, and we kind of hit the road running at the beginning of 2022.

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**John D. Kelly** - Huron Consulting Group Inc. - Executive VP, CFO & Treasurer

Yes. The only thing I'll add is, like Jim has mentioned, we talked about collaboration for a while now. And as the solutions that our clients require have evolved, our teams have really done just an excellent job over the years working together. And I think a big part of what we're doing with the operating model change is we're just making it easier and more seamless for them to be able to work together and to get the right people to our clients with the right projects. So we're really excited about it.

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**James H. Roth** - Huron Consulting Group Inc. - CEO & Director

I think the last thing, Andrew, I'll come back -- just to make 1 more comment, it was a little bit reflective of what John said. It's been apparent for a long time that our -- the complexity of our clients' needs weren't structured the way that we were structured internally. And what we really tried to do is to create an environment internally within Huron where it was much easier for us to respond to the kind of complex, whether it be digital, whether it be strategy, whether it be financial or operational to really respond in a much more seamless way to their issues, which were very
integrated. And we, in fact, historically have not been as integrated as we perhaps should have been. So the new model will get us to the point where it’s much easier for us to be efficient in the way we respond to and deliver our client requests. I hope that kind of clarifies a little bit.

Andrew Owen Nicholas - William Blair & Company L.L.C., Research Division - Analyst

Yes. No, that’s really helpful. And maybe as a follow-up to that last comment, you kind of talked about in your prepared remarks, improved revenue growth, improved organic growth opportunities and efficiency as a consequence of this change. Are there any numbers that you can put around that? Or is that something that you plan to discuss at length in the Investor Day, maybe medium-term growth targets or margin targets?

John D. Kelly - Huron Consulting Group Inc. - Executive VP, CFO & Treasurer

I think that is topics that we'll cover at the Investor Day, Andrew, we'll provide a lot more detail there. Look, when we think about the opportunities that were presented within our industries right now, just with the change that's going on in our industries. And we think about the capabilities that we're really able to bring to bear and the way that we're now bringing those together, you'll notice the guidance for this year, we expect to be able to grow in double-digit range around 10% this year. We see some tailwinds for the medium term here, where we think we're going to be able to grow at that pace.

And then in terms of margin expansion, you've heard us before talk about pushing towards a mid-teen operating margin as a company. And we think that this operating model is really going to facilitate that over the next few years in a very tangible way. So we're excited about providing more detail about that at the Investor Day at the end of the month. But it's really in us pointing towards being able to sustainably grow in double-digit pace and being able to expand those margins to the mid-teen level over the next few years.

Operator

Our next question comes from the line of Tobey Sommer from Truist.

Jasper James Bibb - Truist Securities, Inc., Research Division - Associate

This is Jasper Bibb on for Tobey. I was hoping you could speak to the utilization assumptions in your guidance. I believe you previously talked about getting back to target utilization this year but the fourth quarter was maybe 500, 600 basis points below 2019. But how should we think about that utilization trend? And do you think utilization could get close to 2019 levels by the end of the year?

John D. Kelly - Huron Consulting Group Inc. - Executive VP, CFO & Treasurer

So to answer that last part first, Jasper, we absolutely do think that. And you're right. Our expectation is, if we're looking at the back half of the year, we expect to be more in the mid-70s. We ended up back half of the year more in the low 70s. And I'd say there's really 2 primary factors there. I think that the biggest one is probably with the growth opportunities that we see, that we can see it starting to come through in the fourth quarter and then are baked into our guidance for next year.

We've been hiring aggressively, and you can see that in the metrics that we've provided. And so there is just naturally a little bit of a ramp time with consultants when you're hiring at the pace that we've been hiring. And that has probably depressed utilization a little bit from what we might have expected at the beginning of the year.

And I think there's other pockets within our business where we feel really good when we look at the pipeline, when we look at the inbound inquiries that we see coming in, and we expect to have a ramp-up in utilization in some of those parts of the business. It didn't hit in some of those areas in the third and fourth quarter like we had expected.
But just given the demand that we see, given the hot labor market that’s out there right now, we’ve decided that it makes sense to hold on to those resources so that we’re ready to go when that demand comes to fruition in the first part of 2022.

Jasper James Bibb - Truist Securities, Inc., Research Division - Associate

No, that makes sense. And then can you just comment on what you’re seeing as far as consultant wage trends? And as you look at your ’22 guidance, do you think that’s kind of sufficiently offset with the rate increases?

John D. Kelly - Huron Consulting Group Inc. - Executive VP, CFO & Treasurer

So we did contemplate that in terms of the guidance for this year. And we do – we are impacted by it. It is a tight market right now or it’s the hot labor market. Particularly for many of our resources with technology skills, we’re seeing a lot of demand for those resources right now. So we do expect there to be some impact and it was baked into our guidance.

I’d say our view is that, just given the general dynamics of when we look at the demand we’re seeing from our clients, that there’s just not enough talent out there to service that demand, we expect that that’s going to flow through via pricing and that’s going to offset the majority of those wage increases. But at the same time, we’re also going to utilize our global delivery platform. And again, pursuant to your last question, Jasper, from a utilization perspective, we really feel like we’ve got some room to run there. So we feel good about the increase that’s in our margin guidance for the year. And it is reflective of that wage market that we see right now.

Jasper James Bibb - Truist Securities, Inc., Research Division - Associate

Okay. Got it. And then I wanted to ask about the Managed Services business and how that fits in the new strategy plan you had. I saw you labeled it Consulting and Managed Services. So how do those businesses kind of fit together and how you’re thinking about the next couple of years?

John D. Kelly - Huron Consulting Group Inc. - Executive VP, CFO & Treasurer

Yes. No, you’re right, Jasper. As we’ve talked about before, oftentimes for us, our Managed Service offerings are actually very correlated with our Consulting offerings. In many cases, it’s a lead behind. So after we’ve done a, for example, a performance improvement project in Healthcare, part of what we’re able to offer the client is ongoing Managed Services related to that revenue cycle afterwards. And we’ve had a lot of success and good execution for our clients in that regard.

So our viewpoint was, given the size of the business right now and given the close correlation of our Consulting that it made sense to present those 2 items -- present those 2 items together. We’re still very encouraged by the growth prospects in Managed Services just as the success we’ve had with our clients and some of the demand we see from our clients who are looking for ways to more sustainably and efficiently run certain parts of the business going forward with the expertise that we have.

Operator

(Operator Instructions) I show our next question comes from the line of Bill Sutherland from Benchmark Company.

William Sutherland - The Benchmark Company, LLC, Research Division - Senior Equity Analyst

Exciting times. Wanted to just see -- understand the digital part of this a little bit better. So is the composition of it largely billable hour kind of revenue? Or is this more licensing and that kind of revenue?
John D. Kelly - Huron Consulting Group Inc. - Executive VP, CFO & Treasurer

It’s -- Bill, it’s John. It’s largely billable consultant revenue, but there is a component, sorry, that is ongoing recurring revenue. So if you look at the split of what’s the new digital capability that we’re going to be reporting, it’s about 80% billable consultant revenue related to implementation work that we do for our clients across industries, including health care, education, financial services, energy and other commercial sectors. And then about 20% related to our software and analytics offerings, which have more of a recurring revenue attribute to them.

William Sutherland - The Benchmark Company, LLC, Research Division - Senior Equity Analyst

And one specific segment question. You mentioned commercial. The target margin there for the year in 20 midpoint, and that’s up from, did you say 15.7%?

John D. Kelly - Huron Consulting Group Inc. - Executive VP, CFO & Treasurer

I did. And a thing to keep in mind there is you do have the impact of the Life Sciences divestiture, restructuring charges in that 15.7%. So that’s a couple of hundred basis point headwind on the 2021 margins that we would not expect to repeat in 2022.

William Sutherland - The Benchmark Company, LLC, Research Division - Senior Equity Analyst

And when you’re talking about growth, John, year-over-year, it’s adjusted for Life Sciences?

John D. Kelly - Huron Consulting Group Inc. - Executive VP, CFO & Treasurer

We have not adjusted anything for Life Sciences.

William Sutherland - The Benchmark Company, LLC, Research Division - Senior Equity Analyst

Okay. So you’re comping against -- I’m sorry, go ahead.

John D. Kelly - Huron Consulting Group Inc. - Executive VP, CFO & Treasurer

It’s all with Life Sciences in both periods. So yes, we’re comping against the base that had Life Sciences in it. So in that regard, the actual growth ex Life Sciences is a higher percentage.

William Sutherland - The Benchmark Company, LLC, Research Division - Senior Equity Analyst

Can you tell me like is it a point or 2?

John D. Kelly - Huron Consulting Group Inc. - Executive VP, CFO & Treasurer

The Life Sciences revenue was around $16 million for 2021. That would be repeating in 2022. Yes, 1 6.
Okay. And I'm curious about the India asset. Is the industry focus there kind of heavy in one or more of your segments? Or is it pretty diversified?

Bill, it's Mark. Let me take that one. It's fairly -- it's focused really in a digital capability around technology services. And that will cover increasingly broad industries. It started in our commercial areas predominantly. But we have a strong health care presence now supporting some demand services work. We have increasingly in the education, particularly on the products side of that business and increasing the services. So it's actually going to be across the company, and that's why from a global platform point of view, it works quite well. So you really have the Managed Services piece, you've got technology products and services and then really increasingly corporate shared services as well.

And you're going to just keep your asset just entirely focused in India?

It's based in India. Once you have an infrastructure, and we're probably in 6 or 7 cities across the entire country, it's easier to just leverage that as a platform. They serve other areas within the region, and we're not limiting ourselves. But right now, with that investment in the infrastructure, it's -- and the size that we have today, we have plenty of room to run within India before we think about other geographies, although we can contract from time to time just based on -- but it's more of subcontractor-type arrangements that we get outside of India.

Yes, it's the time zone approach. Okay. I think those were the ones that came to mind.

So you talked about the new segment structure making it easier in terms of collaborating, serve your clients. Have you added any financial incentives for consultants to drive greater collaboration? Or do you think the new structure just kind of takes care of that by itself?

Kevin, it's Mark. We have definitely addressed incentives. And we always have had cross-practice collaboration incentives, and they worked for quite a while. And I think we just got to the place that the impact of those were just not sufficient to really get the level of opportunity in the market.
And so really, as part of the reset of the operating model, have completely reset incentives across the organization as well. And that is what makes it really pretty seamless to work across the organization now. There’s no barrier that's created because of counting of revenue, and we've set goals for people accordingly. So it's actually been quite collaborative in the planning process and then the incentive funding side as well, we’re expecting that to work quite well.

Kevin Mark Steinke - Barrington Research Associates, Inc., Research Division - MD

All right. Great. And then as I look at how the segments have been reorganized here, we typically thought of Business Advisory as about 50% of its revenue coming from technology. And the new commercial segment, I guess, the technology piece is going to come down and move more into Healthcare it looks like. I mean just can you talk about the -- I don't even know if this is relevant to you or on your radar, but it just looks like the technology mix in commercial goes down, goes up in Healthcare. Is there any strategic implication to that, I guess?

James H. Roth - Huron Consulting Group Inc. - CEO & Director

Well, this is Jim. We've historically -- this is one of the reasons we think one of the benefits (inaudible) the new operating model and the reporting structure along with it is that we have historically, we've had digital capabilities provided by -- in our old practice, ES&A that did a lot of work in Healthcare and Education. We had our Education practice that had a lot of technology work that was actually done for Healthcare clients.

And so we had kind of a mismatch of where that work was being done. And just -- it was kind of -- it was done because that’s the way we had kind of originally developed the practices, that kind of evolve that way. And so we think the new model now is going to -- like anything that’s going to be digital is going to be reported with -- I’m sorry, anything that's digital, for example, in the Healthcare -- and for a Healthcare client of any kind, is going to be reported in under the Healthcare segment and within the digital capability.

So the reason we kind of looked at it right now is to provide 2 different ways of looking at our business. One of them is purely from an industry perspective and one of them is going to be purely from a capability perspective. But you will be able to see the collective amount of Healthcare revenues that we have within digital will become much more evident than it ever was before. And we just think it’s a much better way for us to run the business. It’s a much easier way for us to report it. And I think we’ll evolve -- we’ll kind of get past some of the complexities that we had in our historical model.

John D. Kelly - Huron Consulting Group Inc. - Executive VP, CFO & Treasurer

Yes. I'll just add. So with the -- with the shift in segment reporting structure, it’s true that we’re now picking up digital offerings that were in the Business Advisory segment and shifting those over to Healthcare and Education. But there was also strategy offerings and distressed offerings that are shifting as well. So it’s really just giving a total full view inclusive of all those things, strategy, digital and financial advisory in all the segments.

And just to give like some perspective in the new Healthcare Industry segment, it’s going to be about 70% consulting and about 30% digital. The new Education Industry segment is going to be about 50% consulting and about 50% digital. And the Commercial Industry segment is going to be about, think of it like 40% consulting and about 60% digital. So that's going to kind of be the split now as we move forward of digital and management consulting, plus managed services in each of the industries.

Kevin Mark Steinke - Barrington Research Associates, Inc., Research Division - MD

Okay. That's very helpful. Okay. I don't know, John, you may have touched on this or maybe I missed it, but just the margin guidance for 2022 obviously implies some healthy margin expansion. But are there any meaningful investments baked into there? And what kind of impact would they be having on the margin outlook for this year?
John D. Kelly - Huron Consulting Group Inc. - Executive VP, CFO & Treasurer

There are. There are. So embedded in the expanded margin guidance for next year, I think of it probably is 50-plus basis points of investment across the business that’s in that plan right now. Some of it’s in our digital areas as far as that recurring revenue part of the business that we talked about related to products and analytics. And then some of it is really just broadening some of our capabilities from a management consulting and advisory perspective.

So we have been making those investments. We continue to make those investments. And those investments, we think, are really key to the growth that we’re able to produce in the back half of this year and that we’re expecting next year. So it’s going to be an important part of how we grow our business. But that 50 basis points is embedded in the margin expansion that we’ve talked about.

Kevin Mark Steinke - Barrington Research Associates, Inc., Research Division - MD

Okay. And just lastly, I want to ask about Education. You mentioned that demand outperformed your expectations in the fourth quarter, and guiding to some really healthy growth, mid- to high-teens in 2022. What’s the state of large technology implementation projects moving forward? And what are you seeing in the student information systems market, are some of those projects starting to come to the floor as well?

James H. Roth - Huron Consulting Group Inc. - CEO & Director

Kevin, this is Jim. Yes, I’ll go in the reverse order. The student work is definitely – is picking up nicely, and we expect that to be a very solid growth driver for us in the coming years, many years in advance. It’s going to be a big business for us, and we’re really looking forward to that. But yes, it continues to pick up and is performing quite well from our perspective.

More broadly, in terms of just the overall, you recall during the -- during most of -- certainly the end of 2020 and the earlier part of 2021, there was a slowdown in the ERP business and a lot of the digital business within our Education -- for our Education clients. And because they were -- as our clients were focused on other things. That did begin to pick up nicely certainly in the second half of 2021, and we expect that to get kind of right back to where we kind of where when we left off back in the pre-COVID area, a very strong growth. There’s a lot of pent-up demand, and we're well positioned to address that demand.

Operator

(Operator Instructions) I’m showing no further questions in the queue at this time. I would like to turn the call back over to Mr. Roth for closing remarks.

James H. Roth - Huron Consulting Group Inc. - CEO & Director

Thank you all for spending time with us on this kind of a little bit elongated call this afternoon. We look forward to providing more detail and speaking with you at our Investor Day at the end of March. Have a good evening.

Operator

Thanks. That concludes today’s conference call. Thank you, everyone, for participating. You may all disconnect.
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